



MINUTES OF THE BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES, STATE OF CALIFORNIA

Violet Varona-Lukens, Executive Officer
Clerk of the Board of Supervisors
383 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Each Department/District Head

At the Budget Deliberations held June 20, 2005, the Board took the following action:

9

The following item was called up for consideration:

Revisions, additions, and changes to the Chief Administrative Officer's budget recommendations as deemed necessary.

David E. Janssen, Chief Administrative Officer addressed the Board.

The Board took various actions as indicated below and ordered such revisions, additions, and changes to the Chief Administrative Officer's budget recommendations as deemed necessary.

9.1

Supervisor Antonovich made the following statement:

"The Probation Department will have to curtail their school-based probation supervision services in 34 schools Countywide unless they receive adequate funds for this ongoing program. This program has proven effective in reducing the likelihood of juveniles committing violence and disrupting school activities. It has also enabled Probation Officers to better monitor probation and at-risk youth with an emphasis on academic improvement and accountability."

Therefore, on motion of Supervisor Antonovich, seconded by Supervisor Molina, unanimously carried, the Board approved a \$1.2 million budget augmentation from the ongoing Provisional Financing Uses to restore the 34 School-Based Deputy Probation Officer positions to mitigate service reductions scheduled to take effect July 1, 2005.

(Continued on Page 2)

9.1 through 9.7 (Continued)

9.2.1 & 9.2.2

The following statement was entered into the record for Supervisors Yaroslavsky and Molina:

Homeless Count

“In January 2005, the Los Angeles Homeless Services Authority (LAHSA) conducted a Homeless Count of Los Angeles County, which included an actual street count of homeless individuals and families. Last Thursday, LAHSA released the Homeless Count numbers. There are 91,000 homeless individuals on a given night in Los Angeles County. There are approximately 35,000 chronically homeless individuals and more than 7,500 family units.

24-hour, Year-Round Emergency Shelters

“There are only 5,240 emergency shelter beds for these 91,000 homeless individuals. The County has allocated ongoing funds to operate 24-hour year round shelters and has just received a report from our consultant with recommendations for developing such shelters. The County should allocate capital funds to build or rehabilitate buildings for emergency shelters.

Homeless Families

“It is generally not appropriate to mix families and single adults in homeless shelters. Families have unique needs and require a unique emergency shelter setting. In 2002, LAHSA selected Women’s Care Cottage through an RFP process to develop and operate a 24-hour Respite Center for homeless families and to serve as a prototype for an emergency shelter with short-term intensive case management. Additionally, Booth Memorial Center opened an emergency shelter for families in 2004 to address the crisis of homeless families sleeping in the parking lot of a shelter on Skid Row. Although the Department of Public Social Services has made tremendous progress in addressing the needs of homeless families, the County can and should do much more to support emergency shelters for families and to assist families in obtaining permanent housing.

(Continued on Page 3)

9.1 through 9.7 (Continued)

9.2.1 & 9.2.2 (Continued)

LAHSA

“LAHSA is a joint powers authority comprised of the City and County of Los Angeles. It was established over a decade ago in settlement of a lawsuit between the City and County over jurisdictional responsibility for the growing homeless problem. LAHSA’s primary function is to coordinate and oversee the distribution of State and Federal grant funds received in support of homeless services. LAHSA also provides some direct services to the homeless.

“Both the City and the County operate many programs that impact on homelessness. This includes low-income and supportive housing as well as health, mental health, substance abuse, welfare and rental assistance programs. Homelessness is also impacted by the discharge of individuals from County institutions including jails, foster care, and psychiatric wards. The County has come to recognize that it can impact homelessness not only by spending grant funds but by improving the way it administers its core functions.

“The County and City are currently engaged in an effort to end homelessness in 10 years known as “Bring LA Home.” Bring LA Home includes leaders and representatives from both agencies as well as the business, advocacy, academic, non-profit, and faith-based communities in a broad-based campaign to find permanent, structural solutions to the homeless problem. Bring LA Home is focused initially on chronically homeless people, homeless families and the improvement of service delivery by the County so as to prevent and ameliorate homelessness.

“As currently structured, LAHSA is not designed or funded to implement the ten-year plan to end homelessness. We believe the time has come for the County to approach the City and jointly explore options for reenvisioning LAHSA to more actively attack the homeless problem. This could include a more robust program, policy and planning unit as well as active coordination with appropriate City and County agencies. In addition, we should evaluate how LAHSA’s governance structure can be made more accountable to the County and how the County can become more involved with LAHSA.

(Continued on Page 4)

9.1 through 9.7 (Continued)

9.2.1 & 9.2.2 (Continued)

“The County spends a significant amount of money containing homeless issues. The Sheriff’s Department alone estimates that it spends more than \$32 million a year on the incarceration of homeless individuals. It is time for the County to be aggressive and strategic and to begin solving, not just managing, the homeless problem.

Therefore, Supervisor Yaroslavsky made a motion, seconded by Supervisor Molina, that the Board instruct the Chief Administrative Officer to appropriate the following funds from the Designation for Capital Projects and Extraordinary Maintenance:

1. \$20 million for construction and/or renovation of year-round emergency shelters with the specific distribution amounts to be determined by the Board after receiving the recommendation of the Los Angeles Homeless Services Authority and the Chief Administrative Officer.
2. \$2 million for construction of a Respite Center for homeless families, to be operated by Women’s Care Cottage; and appropriate out of Provisional Financing Uses \$200,000 in ongoing operating funds for the Respite Center;
3. \$600,000 in one-time funds for Booth Memorial Center to operate its shelter for homeless families during 2005-06.

Further, instruct the Chief Administrative Officer to:

- 1.a. Work with the Auditor Controller, County Counsel, Community Development Commission and the City of Los Angeles to develop options for more effective administration of homeless services and programs in Los Angeles County, including funding strategies and governance structures; and present these options to the Board in 60 days;
- 1.b. Appropriate \$2 million from Provisional Financing Uses in order to adequately fund the on-going administration of these homeless services in Los Angeles County.

(Continued on Page 5)

9.1 through 9.7 (Continued)

9.2.1 & 9.2.2 (Continued)

2. In collaboration with the Community Development Commission, research and evaluate dedicated revenue sources for homeless programs such as rental assistance, outreach, and operating expenses for supportive and transitional housing and emergency shelters, and report to the Board in 90 days.

Supervisor Knabe made the following statement:

“I am supportive of this Board’s effort to address the homelessness issue that impacts communities across Los Angeles County, in particular the efforts to better assist the large numbers of homeless families identified in the Homeless Count. My office has been involved in ongoing efforts to develop a year round homeless shelter in Long Beach, and we are very close to beginning renovation of the shelter site. We are also looking at opportunities to expand capacity of successful shelters currently in place, such as in the Whittier area, and we will utilize the information provided in the Homeless Count and in the Shelter Partnership study to further exploring other sustainable opportunities within my District.

“To maximize the possibility of success of this important effort, I believe that we need to have the ability to focus resources on enhancements to the homeless services systems currently in place, or to develop new sites for homeless services in areas where they can be developed responsibly, or both.

“I further believe that these new sites should be constructed or rehabilitated with nothing less than the full support of the communities in which they would be placed.

“I am concerned, however, that the \$20 million that is proposed to be set aside strictly for capital development, such as the construction of new homeless shelters, and the expansion of current shelters in place, is too restrictive a use of this money. I am also concerned about long-term sustainability of this increased bed capacity. Our action today, however well-intended, could result in the unintended consequence of constructing or expanding shelters that do not have the capacity to “grow the services” in tandem.

(Continued on Page 6)

9.1 through 9.7 (Continued)

9.2.1 & 9.2.2 (Continued)

“Furthermore, while I am very appreciative of the exhaustive planning efforts of Bring LA Home to address long-term funding of homeless services in Los Angeles County, I believe that this Board needs to be cognizant of the level of commitment we are making. We need to take a careful, measured approach to anything that will result in the County assuming ongoing primary responsibility for solving an issue that I fear will require significant expansion of County government and significant commitment of County resources, with no guarantees that our partner in this – LA City – will hold up their end.

“I believe that we should allow greater flexibility for the use of this money to include both capital projects, services and/or ongoing operational costs for year-round homeless shelters. This would give us the opportunity to consider funding for the expansion of successful programs already in place, as well as examine the feasibility of development of new sites.”

Therefore, Supervisor Knabe made a motion, seconded by Supervisor Burke, to amend Supervisor Yaroslavsky’s motion to allow for greater flexibility for the use of the \$2 million for: a) construction of new year-round homeless shelters, b) expansion of beds in homeless shelters currently in existence, or c) services and/or ongoing operational costs for year-round homeless shelters.

After discussion, Supervisor Yaroslavsky’s motion, as amended by Supervisor Knabe, was unanimously carried.

9.3

The following statement was entered into the record for Supervisors Yaroslavsky and Antonovich:

“On November 3, 2004, the Board of Supervisors authorized the creation of the Education Coordinating Council (ECC) to improve educational outcomes for youth in the foster care and juvenile justice systems. The Chief Administrative Office and County departments identified sources of County funding to provide initial support to the ECC. The ECC convened its first official meeting in January 2005.

(Continued on Page 7)

9.1 through 9.7 (Continued)

9.3 (Continued)

“The ECC has made a significant impact in its first six months. Among its many accomplishments, the ECC:

- Prepared a comprehensive literature review of research on the educational experiences of dependent and delinquent youth;
- Facilitated a preliminary data match between the Los Angeles Unified School District (LAUSD) and the Department of Children and Family Services (DCFS) that collected descriptive statistics and initial academic achievement data on foster youth; and are working with the five other school districts who are stakeholders in the ECC to gather similar data; and
- Obtained a fee waiver from the Los Angeles Universal Preschool (LAUP) for foster parents, parents whose children are under the auspices of DCFS and teen parents in the foster care or juvenile justice systems.

“ECC needs bridge funding to support its work until grants from foundations and other private funders can be secured.”

Therefore, on motion of Supervisor Yaroslavsky, seconded by Supervisor Antonovich, unanimously carried, the Board instructed the Chief Administrative Officer to allocate \$150,000 in one-time funds to the Education Coordinating Council to continue its work on behalf of foster and probation youth.

9.4

Supervisor Burke made the following statement:

“There is a continuing need for clerical support at the Department of Children and Family Services (DCFS); however, clerical shortage is a Countywide phenomenon. Despite efforts to address the problem, a permanent solution has not been put in place. The lack of clerical support in DCFS could undermine the valiant efforts to improve service delivery to vulnerable children and their families.”

Therefore, on motion of Supervisor Burke, seconded by Supervisor Molina, unanimously carried, the Board instructed the Director of Personnel to report back within 60 days with a plan for alleviating clerical shortages.

(Continued on Page 8)

9.1 through 9.7 (Continued)

9.5

Supervisor Molina made the following statement:

“Neighborhood parks provide valuable opportunities for recreation, exercise, learning and socializing for children and families. As our communities become increasingly denser, our parks and green space play a more important role in the well-being of our residents and communities.

“In recent months, an increase of burglaries, vandalism and gang-related shootings have occurred in and around parks in my District. To ensure that our County parks are secure and provide a safe environment for residents, it is imperative that the Office of Public Safety aggressively recruit deputies to fill all vacant deputy patrol positions assigned to parks.”

Therefore, on motion of Supervisor Molina, seconded by Supervisor Knabe, unanimously carried, the Board instructed the Chief of the Office of Public Safety (OPS), in collaboration with the Chief Administrative Officer to provide an assessment and evaluation of OPS’ existing organizational structure and include a plan to improve oversight, service and response times within the OPS budget, including a recruitment plan to fill vacancies and new positions assigned to weekend and evening park patrol; and to provide the Board with quarterly updates on the status of the implementation of the recruitment plan.

9.6

The following statement was entered into the record for Supervisors Yaroslavsky and Molina:

“The Board is adding significant resources to the Custody Budget within the Sheriff’s Department to increase staffing and improve conditions in the County’s jails. The Board had previously made it known that it wanted adequate assurances that any additional funds appropriated for jails would, in fact, be spent for that purpose.”

Therefore, on motion of Supervisor Yaroslavsky, seconded by Supervisor Molina, unanimously carried, the Board instructed the Auditor-Controller to implement a mechanism to ensure that the funds appropriated in the Custody Budget are spent only on Custody functions.

(Continued on Page 9)

9.1 through 9.7 (Continued)

9.7

Supervisor Knabe made a motion, to allocate \$2 million from the designation for extraordinary maintenance to Arts and Culture L.A. Said motion failed for lack of a second.

Copies distributed:
Each Supervisor



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

July 18, 2005

To: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

**LOS ANGELES HOMELESS SERVICES AUTHORITY (LAHSA) CONTRACT
MANAGEMENT ISSUE**

A joint County of Los Angeles and City of Los Angeles staff meeting was convened on June 29, 2005, to discuss your Board's motion of June 20, 2005, directing funding and actions to increase the number of year-round homeless shelter beds in Los Angeles County. The focus of the meeting turned to LAHSA when the City representatives raised concerns regarding the state of LAHSA's fiscal and contract management. Specifically, the City Housing Director indicated that a number of LAHSA contractors alleged that LAHSA was not executing contracts in a timely fashion and was also significantly tardy in paying contractors' invoices for services. As a result of this information, the County and City representatives agreed to send a joint audit team to LAHSA to investigate the current fiscal condition and contract administration.

The County and City auditors will issue their joint findings on July 19, 2005; the findings confirm many of the contractors' allegations and provide a summary and recommendations relative to the fiscal and contract management problems at LAHSA.

In response to the joint audit, Deputy Mayor Bud Ovrom and I have taken the following steps to stabilize and resolve the fiscal and contract management at LAHSA:

- We strongly agree that keeping shelter beds open and available is of the utmost importance; and, therefore, direct communication with the LAHSA contractors will be initiated on July 19, 2005, to advise the contractors of the County and City actions. In addition, a meeting and/or survey will be subsequently conducted to ascertain the

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fiscal status of each contractor so that appropriate actions needed to keep contractors viable can be determined.

- We have designated Carlos Jackson, Executive Director, Los Angeles County Community Development Commission (CDC)/Housing Authority, and Mercedes Marquez, General Manager of the Los Angeles City Housing Department as the administrative oversight team to oversee corrective actions at LAHSA and provide ongoing input to your Board, Mayor Antonio Villaraigosa, and the Los Angeles City Council.
- CDC and the City Housing Department will jointly loan key fiscal and contract specialist staff to assist LAHSA in correcting current problems and establishing revised financial and contracting systems which include appropriate accountability and reporting mechanisms that will permit the County and City to maintain ongoing checks on the fiscal and contractual status of LAHSA.
- The County and City on-loan staff team will work with Thompson, Cobb, Bazilio, and Associates, a management and fiscal consulting firm retained by LAHSA, effective July 19, 2005, to provide fiscal and accounting services and assist in developing system changes as necessary.
- The time line for instituting the corrective action plan and incorporating process changes is three months.

If you have any questions regarding this matter, please contact me or your staff may contact Lari Sheehan of my staff at (213) 893-2477.

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c: Executive Officer, Board of Supervisors
County Counsel
Auditor-Controller



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CHIEF ADMINISTRATIVE
OFFICE



July 19, 2005

The Honorable Antonio Villaraigosa
Mayor, City of Los Angeles
Room 303, City Hall
200 North Spring Street
Los Angeles, CA 90012

DRAFT

The Honorable Gloria Molina
Chair, County Board of Supervisors
500 West Temple Street, #856
Los Angeles, CA 90012

Dear Mayor Villaraigosa and Supervisor Molina:

City and County officials have raised concerns regarding Los Angeles Homeless Services Authority's (LAHSA) current fiscal condition and contract administration. LAHSA subcontractors have reported significant delays in receiving payments for services, which could jeopardize their ability to continue providing services. In addition, City and County departments who provide funding to LAHSA have noted delays in contract execution and problems with LAHSA's grant claiming process. As a result of these concerns, the General Manager of the Los Angeles City Housing Department and the County Chief Administrative Officer requested a joint City/County assessment of LAHSA's fiscal operations.

Assessment Results and Recommendations

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LAHSA has a number of significant fiscal issues including the inability to pay subcontractors timely; inconsistent and untimely billings to available grant sources; and inadequate monthly and year-end financial reporting. LAHSA currently owes more than \$5 million to its service providers (64% of which is more than 30 days past due), but has less than \$700,000 in its bank account. While LAHSA recently submitted \$4.6 million in funding requests to its grantors, the agency did not submit these requests timely. These serious accounting problems have created cash flow issues for many of LAHSA's subcontractors, and raise the question of whether LAHSA can continue as the fiscal agent for publicly funded homeless services.

LAHSA management needs to take immediate action to address the Agency's billing and collection issues discussed in the attached report. LAHSA management needs to develop an appropriate allocation method for administrative costs; work with the City, County and grantors to evaluate ways to improve the Agency's contract administration functions to ensure timely execution of grants and contracts; and hire a qualified Chief Financial Officer.

Honorable Antonio R. Villaraigosa
Honorable Gloria Molina
July 19, 2005
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Review of Report

This report was discussed with LAHSA management on July 12, 2005. LAHSA management agrees with our report and has already begun to make changes and implement our recommendations. For example, LAHSA management met with representatives from Thompson, Cobb, Bazilio, and Associates (TCBA) on July 11, 2005. The consulting firm will provide LAHSA with a formal proposal indicating how they will address LAHSA's fiscal and contracting issues. LAHSA management will concurrently begin the recruitment process for a new Chief Financial Officer. LAHSA will submit a detailed corrective action plan to your offices within 30 days of the issuance of this report.

We thank LAHSA management and staff for their cooperation and assistance during our review. City Controller and County Auditor-Controller staff will be available to meet with LAHSA and the consultants to discuss our recommendations and provide financial advice as necessary.

Sincerely,

LAURA N. CHICK
City Controller

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J. TYLER McCAULEY
County Auditor-Controller

cc: Honorable Members of the Los Angeles City Council
Honorable Rockard J. Delgadillo, City Attorney
Honorable Yvonne B. Burke, Supervisor, Second District
Honorable Zev Yaroslavsky, Supervisor, Third District
Honorable Don Knabe, Supervisor, Fourth District
Honorable Michael D. Antonovich, Supervisor, Fifth District
Marcus Allen, Deputy Chief of Staff, Mayor's Office
Robert Ovrom, Deputy Mayor
Community and Economic Development
William T. Fujioka, City Administrative Officer
Mercedes Marques, General Manager, City of Los Angeles Housing Department
DeWitt Roberts, Chief Deputy Controller, City Controller's Office
David Janssen, County Chief Administrative Officer
Raymond G. Fortner, County Counsel
Carlos Jackson, Community Development Commission
William G. Vasquez, Director, Office of Community Planning and Development,
U.S. Department of Housing and Urban Development
Owen Newcomer, Chair, LAHSA Commission
Sarah Dusseault, Vice Chair, LAHSA Commission
Mitchell Netburn, Executive Director, Los Angeles Homeless Services Authority

Assessment of Current Fiscal Operations of the Los Angeles Homeless Services Authority (LAHSA)

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Background

The Los Angeles Homeless Services Authority (LAHSA) was created in December 1993 as a Joint Powers Authority through an agreement between the City and County of Los Angeles. LAHSA is an independent unit of local government created to address the problems of homelessness on a regional basis. LAHSA's mission is to support, create and sustain solutions to homelessness by providing leadership, advocacy, planning and management of program funding. LAHSA is governed by a ten-member Commission, five of whom are appointed by the Mayor with the approval of City Council; and one by each of the five members of the County Board of Supervisors. The Commission sets policy and approves all contract and funding decisions for LAHSA's direct and sub-contracted operations. The Executive Director is supported by seven directors, and leads a staff of 65.

The scope and responsibility of LAHSA has grown tremendously. Starting with an initial budget of \$5 million to support five small programs, LAHSA now manages up to \$50 million annually¹. LAHSA operates two direct programs; the countywide emergency response and homeless family outreach teams, and administers approximately 200 programs through subcontracts with nonprofit agencies. As the regional coordinating agency for homeless services, LAHSA is also responsible for:

- consolidated planning and advocacy;
- coordination and linkages between programs;
- prioritization of projects for public funding;
- measurement of program effectiveness through analysis of performance outcomes and implementation of a countywide homeless management information system;
- ensuring compliance with applicable laws and regulations through fiscal and programmatic monitoring of subcontracted operations.

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On June 29, 2005, City and County officials held a joint meeting to discuss additional funding/revenue sources for shelter services and governance of homeless services and administration. During the meeting, several concerns were raised regarding LAHSA's contract and fiscal performance. Some homeless shelter contractors reported to City officials that they were experiencing significant delays with contract execution and invoice payment from LAHSA. The Mayor's office and the County Chief Administrative Officer requested that a joint City-County review be conducted as soon as possible. The City Controller and County Auditor-Controller dedicated staff to perform an initial assessment.

¹ Attachment 1 presents 2005-06 budgeted sources and uses of LAHSA's funds.

LAHSA's Fiscal History

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When LAHSA was originally created, the County of Los Angeles served as the agency's fiscal agent. All funds were held on deposit in the County treasury, and financial transactions were recorded on both LAHSA's and the County Auditor-Controller's accounting systems. LAHSA and the County Auditor-Controller worked together to allow LAHSA to attain fiscal autonomy from the County to maximize efficiency and effectiveness of both organizations. Under the direction of a new CFO, with assistance and oversight by County Auditor-Controller and other County departments, the City and County revised the Joint Powers Agreement giving LAHSA fiscal autonomy from the County in February 2001.

At that time, LAHSA's fiscal controls and procedures were functioning well. The automated accounting system was fully implemented, monthly financial statements were presented to the Commission on a regular basis, audits were up-to-date, there were no outstanding findings, controls and procedures were followed, and subcontractor invoices were processed timely.

Purpose and Scope

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The purpose of the assessment, which was conducted over a one-week period, was to provide an overview of LAHSA's current fiscal problems along with specific recommended actions to correct them. Our assessment consisted of interviews with LAHSA management and staff, and a review of relevant records and documents.

Assessment Results

LAHSA has a number of significant fiscal issues that must be corrected immediately if LAHSA is to continue as the fiscal agent for publicly-funded homeless services. These issues include the inability to pay subcontractor invoices timely; inconsistent, and untimely billing to available grant sources; and inadequate monthly and year-end financial reporting which has prevented LAHSA from completing required audits.

As of July 8, 2005, LAHSA owes more than \$5 million to its subcontractor service providers (64% of which is more than 30 days past due), but has less than \$700,000 in its bank account. Although LAHSA has submitted \$4.6 million in funding requests to its grantors, the agency did not submit these requests timely to the City and County because of severe accounting problems. These accounting problems have created cash flow issues for many of LAHSA's subcontractors, and raise the question of whether LAHSA can continue to effectively manage its fiscal operations.

LAHSA management indicated there are several reasons for the current fiscal problems, including staff vacancies; lack of adequate direction and oversight by management; an increase in the number and restrictions of funding sources; more

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complicated billing procedures; an increase in the number of LAHSA programs funded by multiple grants; and the need for additional fiscal staff to handle the new programs and funding source restrictions.

The details of these and other significant issues are discussed below.

1. *LAHSA does not have procedures in place to claim grant funds and pay its subcontractors timely*

As noted earlier, LAHSA owes more than \$5 million to its subcontractor service providers, and has less than \$700,000 in its bank account. While \$4.6 million in funding requests have recently been submitted to grantors, LAHSA has not been able to timely claim all grant funds available through the City and County because of severe accounting problems.

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Specifically, many of LAHSA's contracts with service providers are funded by more than one source (e.g., State and Federal funds). These multi-funded contracts require LAHSA to be able to allocate costs billed by the service providers among the various funding agencies, and ensure compliance with each funding agency's requirements. LAHSA does not have procedures in place to adequately budget and report expenditures for its multi-funded subcontracted programs. As a result:

- LAHSA is unable to process and pay invoices from service providers timely because LAHSA staff do not know which grants to charge for multi-funded programs.
- LAHSA cannot claim funds from its funding sources until the Agency has invoices to support the claimed amounts. Grants must be billed based on actual charges incurred and billed by subcontractors. Failure to claim timely has resulted in cash flow problems and delayed payments to subcontractors, service providers. To allow LAHSA to make some payments to service providers, LAHSA has been using funds from other, unrelated grants to pay subcontractor expenditures when those grants cannot be billed. Federal regulations prohibit this practice. Claim cuts will result unless these errors are corrected. This matter is discussed in the next section of this report.
- LAHSA is unable to close its books for the fiscal years (FY) ended June 30, 2004 and 2005. Staff stated that many of the program expenditures incurred and invoiced by subcontractors were entered into the accounting system, but were coded to the wrong grant(s). These errors need to be corrected before LAHSA can close its books for these FYs.

Recommended Actions:

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- (a) For the prior year(s) grants and subcontracts, LAHSA needs to reconcile the expenditures, billings and receipts for multi-funded programs and ensure that the grants are appropriately charged and closed out.
 - (b) LAHSA should separately identify and allocate subcontractors' budgets for each funding source upon contract execution for multi-funded programs. Subcontractors must bill in accordance with their budgets and LAHSA must record actual expenditures/billings for each funding source and program as they process invoices for payment.
2. *LAHSA does not have mechanisms in place to adequately distribute its administrative costs to grant programs.*

The lack of an appropriate method to allocate administrative costs has also contributed to LAHSA's inaccurate accounting information. For example, staff stated that they have not recorded payroll transactions for the three most recent payroll periods. This again is due to staffs' uncertainty over which grants to charge and has limited LAHSA's ability to bill their administrative costs.

In addition, LAHSA is unable to close prior-year grants because administrative costs were not appropriately allocated. This has resulted in funding overages/shortages for those grants. Staff stated that they record year-end adjustments to the accounting records in order to meet grant budgets. This practice is generally prohibited by grantors and could result in audit exceptions requiring funding to be returned to grantors.

LAHSA fiscal staff also indicated that they intended to bill their administrative costs for the current FY (2005-06) by requiring all employees to code their timecards to specific grants based on the grants' budgets, not the actual time/costs. Staff indicated this approach would be easier than having to continually make adjustments to meet grant budgets. We informed staff that charging grants based on budgets is specifically prohibited by federal cost regulations (OMB Circular A-87).

Recommended Actions:

- (a) LAHSA must develop a new cost allocation methodology to properly distribute administrative costs to grants in accordance with federal cost principles and grant requirements.
- (b) LAHSA should review prior administrative expenditures billed to the agency's funding sources. LAHSA should then negotiate with

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grantors to adjust charges and revise contract budgets in order to close out prior year grants.

3. *LAHSA is not executing contracts with its funding agencies and subcontractors timely.*

Direct programs operated by LAHSA include the Countywide Emergency Response and Family Outreach Programs. The remainder of LAHSA's programs are operated through a number of subcontracts with nonprofit agencies throughout the community, and are funded by a variety of sources (City, County, etc.).

City-Funded Subcontracts

The City of Los Angeles' Housing Department recently voiced concern over the timeliness of LAHSA's contract execution. Specifically, all 17 of LAHSA's FY 2005-06 ESG and CDBG contracts (April 1 start date) with the City that provide funding to LAHSA have been executed. However, LAHSA has not finalized all of its contracts with its subcontractors who provide services under these City-funded contracts. Specifically, only eight of LAHSA's 46 subcontracts with agencies that provide services under City-funded contracts were executed as of June 30, 2005. LAHSA indicated that the remaining 38 contracts have been given to the subcontractors for their approval/signature. LAHSA noted that they did not receive the 17 completed contracts from the City until May 25, 2005, and did not have the authority to enter into its subcontracts until after that date.

County-Funded Subcontracts

The County's Community Development Commission (CDC) stated that all four of its FY 2005-06 contracts (July 1 start date) with LAHSA that provide County funding for LAHSA's programs had not been executed as of July 5, 2005. LAHSA staff indicated they are currently reviewing the contracts and they expect to finalize them within the next week. As a result, LAHSA subcontracts for programs to be paid by County funds have not yet been executed.

HUD Funded Subcontracts

The majority of LAHSA's subcontracts are funded directly through the federal Department of Housing and Urban Development (HUD) Supportive Housing Program (SHP). Each SHP contract must first be negotiated with HUD, and then with LAHSA and the subcontract service provider. Several providers have complained about lengthy delays in executing their SHP contracts. LAHSA management indicated that it typically takes an average of two months to receive an executed grant agreement from HUD, although extremely complex

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projects may take significantly longer. However, our limited assessment did not determine the cause of these delays, including which agencies may be responsible.

Recommended Action:

LAHSA management should work with the City, County and other grantors to evaluate ways to improve the Agency's contract administration functions to ensure timely execution of grants and contracts.

4. *LAHSA does not have capable financial leadership with sufficient expertise to address and correct the problems.*

A primary cause of LAHSA's fiscal problems was the inadequate oversight by management, including failure on the part of the prior CFO to revise and update fiscal procedures to accommodate the growing needs of LAHSA. In addition, it appears that most of the knowledge base regarding LAHSA's overall fiscal operations was lost when the CFO resigned in May 2005.

During our assessment, we noted that staff could not always answer our questions or provide requested data. While it appears that most fiscal staff are knowledgeable in completing their assigned tasks (i.e., approve and pay invoices), they are unclear as to how these tasks fit into LAHSA's overall operations. LAHSA management noted that two of their 11 budgeted fiscal positions are vacant, and that only three of the nine existing staff have more than one year's experience at LAHSA.

It is clear that LAHSA needs capable financial leadership to direct staff on how to address the critical issues facing the agency. This is imperative to ensure the ongoing stability and integrity of LAHSA's financial operations.

Recommended Actions:

- (a) LAHSA must hire a qualified CFO to ensure the agency's fiscal operations are appropriate and in compliance with all applicable laws and regulations.
- (b) LAHSA's new CFO should assess the organizational structure of the agency's fiscal department, including the functions and qualifications of all staff to ensure LAHSA has the capacity to function effectively.

**LOS ANGELES HOMELESS SERVICES AUTHORITY
FISCAL YEAR 2005-06**

SOURCES:**DRAFT**

City of Los Angeles

LAHD: General Funds allocation	4,600,000
LAHD: Emergency Shelter Grant Program	3,270,215
LAHD: Community Development Block Grant	9,276,462

Total funds passed thru City contracts:

17,146,677 35.3%

County of Los Angeles

CSS: General Funds	4,005,000
CDC: Emergency Shelter Grant Program	1,326,590
CDC: Community Development Block Grant Program	285,000
CDC: Independent Living Program	2,139,386
DPSS: CalWORKS Families Project	1,900,000
DPSS: Outreach Project	750,000

Total funds passed through County contracts:

10,405,976 21.4%

State of California

Emergency Housing and Assistance Program

146,136 0.3%

Direct Federal funding

HUD: Supportive Housing Program	20,128,395
FEMA: Emergency Food & Shelter Program	785,905

Total funding received directly from federal sources:

20,914,300 43.0%

TOTAL SOURCES:**48,613,089 100.0%**USES:

LAHSA Direct Programs
LAHSA Administration
Sub-Contracted Programs

DRAFT

669,151	1.4%
3,765,040	7.7%
44,178,898	90.9%

TOTAL USES:**48,613,089 100.0%**

Note: amounts and categories taken from LAHSA's FY 2005-06 Budget, adopted by LAHSA Commission on June 24, 2005.